

HIGHLAND COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION  
AND SCHEDULE OF FINDINGS

JUNE 30, 2014

# HIGHLAND COMMUNITY SCHOOL DISTRICT

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# HIGHLAND COMMUNITY SCHOOL DISTRICT

Officials  
June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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## Board of Education

### (Before September 2013 Election)

Mike Roberts	Board President	2013
Becky Hanson	Board Member	2013
Kevin Engel	Board Member	2013
Mike Golden	Board Member	2015
Megan Allen	Board Member	2015
Nick Smith	Board Member	2015
Cindy Michel	Board Member	2015

### (After September 2013 Election)

Kevin Engel	Board President	2017
Mike Golden	Board Member	2015
Lois Schneider	Board Member	2015
Cindy Michel	Board Member	2015
Tara Black	Board Member	2015
Rachel Longbine	Board Member	2017
Laura Temple	Board Member	2017

## School Officials

Chris Armstrong	Superintendent	2014
Sue Rich	District Secretary/Treasurer	Indefinite
C. Joseph Holland	Attorney	Indefinite

# Kay L. Chapman, CPA PC

116 Harrison Street  
Muscatine, Iowa 52761  
563-264-1385  
kchapman@cpakay.com

## Independent Auditor's Report

To the Board of Education  
Highland Community School District:

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Highland Community School District, Riverside, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Highland Community School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### Other Matters

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 15 and 46 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Highland Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated March 12, 2015 on my consideration of Highland Community School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Highland Community School District's internal control over financial reporting and compliance.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
March 12, 2015

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Highland Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2014 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,518,660 in fiscal 2013 to \$7,813,202 in fiscal 2014 and General Fund expenditures increased from \$7,136,523 in fiscal 2013 to \$7,381,212 in fiscal 2014. The District's General Fund balance increased from \$(88,578) in fiscal 2013 to \$343,412 in fiscal 2014, a 488% increase.
- The increase in the General Fund revenues was attributable to increased property taxes due to an increase in property valuation for the 2014 fiscal year. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits of the certified staff and increased utility costs, although the district improved immensely on the general fund balance because of careful monitoring of the General Fund expenditures. We now have a positive balance in the General Fund which is a great accomplishment.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Highland Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Highland Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the non-major governmental and enterprise funds.



Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Highland Community School District Annual Financial Report**

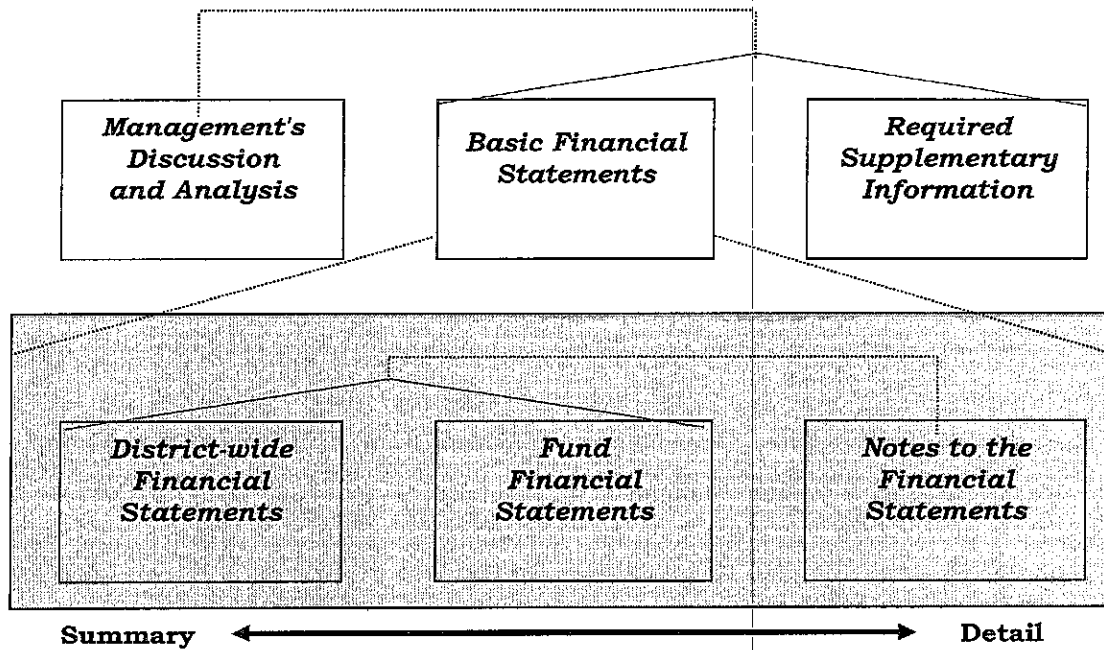


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b>			
<b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and preschool program
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how they have changed. Net position is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and preschool programs are included here.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Preschool Fund.

The required financial statements for proprietary funds include a statement of net position, statement of revenues, expenses and changes in fund net position and a statement of cash flows.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2014 compared to June 30, 2013.

Figure A-3

### Condensed Statement of Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-2014
Current and other assets	\$ 6,214,965	\$ 5,410,724	\$ 85,765	\$ 56,522	\$ 6,300,730	\$ 5,467,246	15.25%
Capital assets	9,603,791	9,669,753	16,475	17,179	9,620,266	9,686,932	-0.69%
Total assets	<u>15,818,756</u>	<u>15,080,477</u>	<u>102,240</u>	<u>73,701</u>	<u>15,920,996</u>	<u>15,154,178</u>	5.06%
Long-term liabilities	6,078,924	6,291,002	-	-	6,078,924	6,291,002	-3.37%
Other liabilities	977,716	1,016,437	34,715	25,241	1,012,431	1,041,678	-2.81%
Total liabilities	<u>7,056,640</u>	<u>7,307,439</u>	<u>34,715</u>	<u>25,241</u>	<u>7,091,355</u>	<u>7,332,680</u>	-3.29%
Deferred inflows of resources	<u>3,788,716</u>	<u>3,424,483</u>	<u>-</u>	<u>-</u>	<u>3,788,716</u>	<u>3,424,483</u>	10.64%
Net position							
Net investment							
in capital assets	4,803,791	4,394,753	16,475	17,179	4,820,266	4,411,932	9.26%
Restricted	997,611	941,407	-	-	997,611	941,407	5.97%
Unrestricted	<u>(828,002)</u>	<u>(987,605)</u>	<u>51,050</u>	<u>31,281</u>	<u>(776,952)</u>	<u>(956,324)</u>	0.83%
Total net position	<u>\$ 4,973,400</u>	<u>\$ 4,348,555</u>	<u>\$ 67,525</u>	<u>\$ 48,460</u>	<u>\$ 5,040,925</u>	<u>\$ 4,397,015</u>	14.64%

The District's total net position increased by approximately 15%, or \$643,910, over the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$56,204, or approximately 6% over the prior year.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$179,372 or approximately 1%.

Figure A-4 shows the changes in net position for the year ended June 30, 2014 compared to the year ended June 30, 2013.

Figure A-4  
Change in Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-2014
Revenues							
Program revenues							
Charges for service	\$ 945,006	\$ 877,493	\$ 209,035	\$ 227,261	\$ 1,154,041	\$ 1,104,754	4.46%
Operating grants and contributions	1,032,449	1,015,431	149,859	145,494	1,182,308	1,160,925	1.84%
General revenues							
Property tax	3,755,776	3,568,129	-	-	3,755,776	3,568,129	5.26%
Statewide sales, services and use tax	577,786	545,245	-	-	577,786	545,245	5.97%
Unrestricted state grants	3,070,623	2,807,246	-	-	3,070,623	2,807,246	9.38%
Contributions and donations	82,375	266,225	-	-	82,375	266,225	-69.06%
Unrestricted investment earnings	688	602	5	12	693	614	12.87%
Other	17,185	13,278	-	-	17,185	13,278	29.42%
Gain on disposal of assets	<u>3,458</u>	<u>28,327</u>	<u>-</u>	<u>-</u>	<u>3,458</u>	<u>28,327</u>	-87.79%
Total revenues	<u>9,485,346</u>	<u>9,121,976</u>	<u>358,899</u>	<u>372,767</u>	<u>9,844,245</u>	<u>9,494,743</u>	3.68%
Program expenses							
Governmental activities							
Instruction	5,253,949	5,047,714	-	-	5,253,949	5,047,714	4.09%
Support services	2,796,260	2,675,028	-	-	2,796,260	2,675,028	4.53%
Non-instructional programs	-	-	339,834	349,912	339,834	349,912	-2.88%
Other expenses	<u>810,292</u>	<u>764,106</u>	<u>-</u>	<u>-</u>	<u>810,292</u>	<u>764,106</u>	6.04%
Total expenses	<u>8,860,501</u>	<u>8,486,848</u>	<u>339,834</u>	<u>349,912</u>	<u>9,200,335</u>	<u>8,836,760</u>	4.11%
Change in net position	624,845	635,128	19,065	22,855	643,910	657,983	-2.14%
Net position, beginning of year	<u>4,348,555</u>	<u>3,713,427</u>	<u>48,460</u>	<u>25,605</u>	<u>4,397,015</u>	<u>3,739,032</u>	17.60%
Net position, end of year	<u>\$ 4,973,400</u>	<u>\$ 4,348,555</u>	<u>\$ 67,525</u>	<u>\$ 48,460</u>	<u>\$ 5,040,925</u>	<u>\$ 4,397,015</u>	14.64%

In fiscal 2014, property tax and unrestricted state grants account for approximately 72% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for almost 100% of the revenue from business type activities.

The District's total revenues were \$9,844,245 of which \$9,485,346 was for governmental activities and \$358,899 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4% increase in revenues and a 4% increase in expenses. The increase in revenues was due to increased property taxes and grants from the Washington County Riverboat Foundation. The increase in expenses was due primarily to an increase in the negotiated salary and benefits of the certified staff and salary increases for the support staff and administration.

### Governmental Activities

Revenues for governmental activities were \$9,485,346 and expenses were \$8,860,501 for the year ended June 30, 2014.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2014 compared to the year ended June 30, 2013.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-2014	2014	2013	Change 2013-2014
Instruction	\$ 5,253,949	\$ 5,047,714	4.1%	\$ 3,545,385	\$ 3,417,085	3.8%
Support services	2,796,260	2,675,028	4.5%	2,790,104	2,665,768	4.7%
Other expenses	<u>810,292</u>	<u>764,106</u>	6.0%	<u>547,557</u>	<u>511,071</u>	7.1%
Total expenses	<u>\$ 8,860,501</u>	<u>\$ 8,486,848</u>	4.4%	<u>\$ 6,883,046</u>	<u>\$ 6,593,924</u>	4.4%

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$945,006.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,032,449.
- The net cost of governmental activities was financed with \$4,333,562 in property and other taxes and \$3,070,623 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities during the year ended June 30, 2014 were \$358,899 representing a decrease of approximately 4% from the prior year while expenses totaled \$339,834, a 3% decrease from the prior year. The District's business type activities include the School Nutrition Fund and Preschool Fund. Revenues for these activities were comprised of charges for service, federal and state reimbursements and investment income. The decrease in expenses was due to the close monitoring of food costs and making more baked products in the kitchen. The decrease in revenues was due to fewer students utilizing the hot lunch program.

### INDIVIDUAL FUND ANALYSIS

As previously noted, Highland Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,194,007, well above last year's ending fund balances of \$748,595. The primary reason for the increase was due to improvement in the fund balance of the General Fund.

### Governmental Fund Highlights

- The General Fund balance increased from \$(88,578) to \$343,412. The District increased the General Fund balance due to careful monitoring of the General Fund expenditures.

- The Capital Projects Fund - Statewide Sales, Services and Use Tax Fund balance increased from \$710,812 to \$753,233 due to careful monitoring of the Capital Projects Fund expenditures.

### **Proprietary Fund Highlights**

Enterprise Fund net position increased from \$48,460 at June 30, 2013 to \$67,525 at June 30, 2014, representing an increase of approximately 40%. This increase was due to more efficient use of government commodities and careful monitoring of food purchases.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the District amended its budget one time to reflect additional expenditures associated with instruction and other expenditures.

The District's revenues were \$244,097 more than budgeted revenues, a variance of approximately 3%.

Total expenditures were \$63,887 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through the line-item budget.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and other expenditure functions due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2014, the District had invested \$9,620,266, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of approximately 1% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$530,997.

The original cost of the District's capital assets was \$14,705,186. Governmental funds account for \$14,593,902, with the remainder of \$111,284 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category, which increased from \$533,495 in 2013 to \$568,329 in 2014. This was due to additional equipment being purchased in fiscal year 2014.

Figure A-6

## Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2013-2014</u>
Land	\$ 226,612	\$ 226,612	\$ -	\$ -	\$ 226,612	\$ 226,612	0.00%
Buildings and improvements	7,107,664	7,268,571	-	-	7,107,664	7,268,571	-2.21%
Improvements, other than buildings	1,717,661	1,658,254	-	-	1,717,661	1,658,254	3.58%
Furniture and equipment	<u>551,854</u>	<u>516,316</u>	<u>16,475</u>	<u>17,179</u>	<u>568,329</u>	<u>533,495</u>	6.53%
Totals	<u>\$9,603,791</u>	<u>\$9,669,753</u>	<u>\$16,475</u>	<u>\$17,179</u>	<u>\$9,620,266</u>	<u>\$9,686,932</u>	-0.69%

**Long-Term Debt**

At June 30, 2014, the District had \$6,078,924 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 3% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

The District continues to carry a general obligation bond rating of A assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$13 million.

Figure A-7

## Outstanding Long-term Obligations

	Total District		Total Change
	<u>2014</u>	<u>2013</u>	<u>2013-2014</u>
General obligation bonds	\$ 925,000	\$ 1,155,000	-19.91%
Revenue bonds	3,075,000	3,220,000	-4.50%
Capital loan notes	800,000	900,000	-11.11%
Compensated absences	14,103	47,127	-70.07%
Termination benefits	91,455	61,854	47.86%
Net OPEB liability	<u>1,173,366</u>	<u>907,021</u>	29.36%
Total	<u>\$ 6,078,924</u>	<u>\$ 6,291,002</u>	-3.37%

**ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- In August 2006 a vote was held to build a new casino in Riverside, Iowa. The property will be annexed into the city and even though the area will be in a tax increment financing district for a maximum of eight years to pay for water and sewer infrastructure it will affect the tax base in the immediate future for the debt service and physical plant and equipment



levies. A private foundation has been formed to allocate funds (\$2.6 to \$3.2 million) annually to public entities such as school districts, non-profit organizations and for economic development. This will have a long-term affect on the district due to an increased tax base, foundation funds, one-cent sales tax, increased employment and therefore an increase in people moving into the district.

- PPEL and SILO funds are now used for major purchases that were previously paid for out of the General Fund. We will no longer be using the General Fund for major purchases that can now be purchased from the PPEL and SILO Funds. There was also a declaratory ruling that allowed schools to shift certain technology purchases and service agreements to the PPEL Fund. These expenditures will be expended from the PPEL Fund in the future.
- The State of Iowa passed a one-cent penny sales tax, effective July 1, 2008, to be used for school infrastructure, which replaced the SILO taxes voted on by the 99 Iowa counties. The Highland Community School District passed a new revenue purpose statement on September 9, 2008. This gives Highland the power to borrow against these funds through 2029. We sold \$3,660,000 of revenue bonds on June 1, 2009 to finance a building project to do necessary improvements and additions to the middle school/high school building without using property taxes and still have funds remaining to do necessary building repairs/maintenance and the purchase of transportation equipment.
- The Board has earmarked \$50,000 per year for computer hardware from the SILO fund. Also, we have applied for and received grants from the Washington County Riverboat Foundation for major technology purchases. We will continue to use this new avenue of funding for major equipment acquisitions and additions to the Highland Community School District, which frees up funds in the General Fund for other expenses.
- The Board purchased approximately 16 acres of farmland adjacent to the secondary building site on December 30, 2010. This purchase will allow the district to expand its athletic facilities, parking areas, bus barn or whatever other buildings it may deem necessary in the future.
- To improve the financial position of the school lunch program we have contracted with a regional coop purchasing program to replace the state program, which will give us more control over items purchased and therefore saving us money. We will continue to closely monitor revenues and expenditures. We also increased the prices of breakfast and lunch for the 2013-14 school year and have increased our usage of the federal commodities program.
- We increased the tuition rates for our three year-old preschool program for the 2013-14 school year. We will continue to monitor this program very closely.
- We signed on to an Equipment Breakdown Insurance policy with premiums paid out of the Management Fund which saves General Fund dollars by having all electrical equipment repairs paid by the insurance company instead of from the General Fund.
- The District entered in to operational sharing agreements with neighboring school districts which resulted in additional weighted funding. These sharing agreements will continue to be looked at as a means of receiving additional weighted funding.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sue Rich, Board Secretary/Treasurer, Highland Community School District, 1715 Vine Avenue, Riverside, Iowa 52327.

## Basic Financial Statements

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Net Position  
June 30, 2014

Exhibit A

<b>Assets</b>	Governmental Activities	Business Type Activities	Total
Cash, cash equivalents and pooled investments			
Cash with fiscal agent	\$ 456,350	\$ -	\$ 456,350
Other	1,259,721	80,840	1,340,561
Receivables			
Property tax			
Delinquent	40,020	-	40,020
Succeeding year	3,788,716	-	3,788,716
Income surtax	302,027	-	302,027
Accounts receivable	210	-	210
Due from other governments	358,929	-	358,929
Due from other fund	8,992	-	8,992
Inventories	-	4,925	4,925
Non-depreciable capital assets	226,612	-	226,612
Capital assets, net of accumulated depreciation	9,377,179	16,475	9,393,654
Total assets	<u>15,818,756</u>	<u>102,240</u>	<u>15,920,996</u>
<b>Liabilities</b>			
Accounts payable	152,023	-	152,023
Salaries and benefits payable	737,839	20,270	758,109
Unearned revenue	-	5,453	5,453
Accrued interest payable	87,854	-	87,854
Due to other fund	-	8,992	8,992
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	230,000	-	230,000
Revenue bonds payable	150,000	-	150,000
Capital loan notes payable	100,000	-	100,000
Termination benefits	26,029	-	26,029
Portion due after one year			
General obligation bonds payable	695,000	-	695,000
Revenue bonds payable	2,925,000	-	2,925,000
Capital loan notes payable	700,000	-	700,000
Compensated absences	14,103	-	14,103
Termination benefits	65,426	-	65,426
Net OPEB liability	1,173,366	-	1,173,366
Total liabilities	<u>7,056,640</u>	<u>34,715</u>	<u>7,091,355</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Net Position  
June 30, 2014

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>Deferred Inflows of Resources</b>			
Unavailable property tax revenue	<u>\$ 3,788,716</u>	<u>\$ -</u>	<u>\$ 3,788,716</u>
<b>Net Position</b>			
Net investment in capital assets	4,803,791	16,475	4,820,266
Restricted for			
Categorical funding	150,148	-	150,148
Physical plant and equipment	14,075	-	14,075
Student activities	80,155	-	80,155
School infrastructure	753,233	-	753,233
Unrestricted	<u>(828,002)</u>	<u>51,050</u>	<u>(776,952)</u>
Total net position	<u>\$ 4,973,400</u>	<u>\$ 67,525</u>	<u>\$ 5,040,925</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2014

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted	Capital Grants, Contributions and Restricted	Governmental Activities	Business Type Activities	Total
			Interest	Interest			
Governmental activities							
Instruction							
Regular instruction	\$ 3,050,667	\$ 731,912	\$ 712,558	\$ -	\$ (1,606,197)	\$ -	\$ (1,606,197)
Special instruction	1,145,793	207,644	52,443	-	(885,706)	-	(885,706)
Other instruction	1,057,489	-	4,007	-	(1,053,482)	-	(1,053,482)
	5,253,949	939,556	769,008	-	(3,545,385)	-	(3,545,385)
Support services							
Student	142,291	-	-	-	(142,291)	-	(142,291)
Instructional staff	232,792	-	-	-	(232,792)	-	(232,792)
Administration	1,047,988	-	-	-	(1,047,988)	-	(1,047,988)
Operation and maintenance of plant	782,933	-	-	-	(782,933)	-	(782,933)
Transportation	590,256	5,450	706	-	(584,100)	-	(584,100)
	2,796,260	5,450	706	-	(2,790,104)	-	(2,790,104)
Other expenses							
Facilities acquisition	43,778	-	-	-	(43,778)	-	(43,778)
Long-term debt interest	180,780	-	-	-	(180,780)	-	(180,780)
AEA flowthrough	262,735	-	262,735	-	-	-	-
Depreciation (unallocated) *	322,999	-	-	-	(322,999)	-	(322,999)
	810,292	-	262,735	-	(547,557)	-	(547,557)
Total governmental activities	8,860,501	945,006	1,032,449	-	(6,883,046)	-	(6,883,046)

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2014

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b><u>Functions/Programs (continued)</u></b>							
Business type activities							
Non-instructional programs							
Food service operations	\$ 318,638	\$ 192,771	\$ 149,859	\$ -	\$ -	\$ 23,992	\$ 23,992
Preschool operations	21,196	16,264	-	-	-	(4,932)	(4,932)
Total business type activities	339,834	209,035	149,859	-	-	19,060	19,060
Total	\$ 9,200,335	\$ 1,154,041	\$ 1,182,308	\$ -	(6,883,046)	19,060	(6,863,986)
<b><u>General Revenues</u></b>							
Property tax levied for							
General purposes					3,174,314	-	3,174,314
Debt service					239,510	-	239,510
Capital outlay					341,952	-	341,952
Statewide sales, services and use tax					577,786	-	577,786
Unrestricted state grants					3,070,623	-	3,070,623
Contributions and donations					82,375	-	82,375
Unrestricted investment earnings					688	5	693
Other					17,185	-	17,185
Special item - gain on disposal of capital assets					3,458	-	3,458
Total general revenues and special item					7,507,891	5	7,507,896
Change in net position					624,845	19,065	643,910
Net position beginning of year					4,348,555	48,460	4,397,015
Net position end of year					\$ 4,973,400	\$ 67,525	\$ 5,040,925

\* This amount excludes the depreciation included in the direct expenses of the various programs.  
See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet  
Governmental Funds  
June 30, 2014

	<u>General</u>	<u>Capital Projects Statewide Sales, Services and Use Tax</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Assets</b>				
Cash, cash equivalents and pooled investments				
Cash with fiscal agent	\$ -	\$ 456,350	\$ -	\$ 456,350
Other	928,975	147,688	140,546	1,217,209
Receivables				
Property tax				
Delinquent	31,435	-	8,585	40,020
Succeeding year	2,898,770	-	889,946	3,788,716
Accounts receivable		-	210	210
Income surtax	302,027	-	-	302,027
Due from other governments	171,734	187,195	-	358,929
Due from other funds	94,203	-	-	94,203
Total assets	<u>\$ 4,427,144</u>	<u>\$ 791,233</u>	<u>\$ 1,039,287</u>	<u>\$ 6,257,664</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 145,096	\$ -	\$ 4,768	\$ 149,864
Salaries and benefits payable	737,839	-	-	737,839
Due to other funds	-	38,000	47,211	85,211
Total liabilities	<u>882,935</u>	<u>38,000</u>	<u>51,979</u>	<u>972,914</u>
<b>Deferred inflows of resources</b>				
Unavailable revenue				
Succeeding year property tax	2,898,770	-	889,946	3,788,716
Income surtax	302,027	-	-	302,027
Total deferred inflows of resources	<u>3,200,797</u>	<u>-</u>	<u>889,946</u>	<u>4,090,743</u>
<b>Fund balances</b>				
Restricted for				
Categorical funding	150,148	-	-	150,148
School infrastructure	-	753,233	-	753,233
Student activities	-	-	80,155	80,155
Physical plant and equipment	-	-	14,075	14,075
Debt service	-	-	47,235	47,235
Unassigned	193,264	-	(44,103)	149,161
Total fund balances	<u>343,412</u>	<u>753,233</u>	<u>97,362</u>	<u>1,194,007</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,427,144</u>	<u>\$ 791,233</u>	<u>\$ 1,039,287</u>	<u>\$ 6,257,664</u>

See notes to financial statements.



HIGHLAND COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Position  
June 30, 2014

Exhibit D

<b>Total fund balances of governmental funds</b>	<b>\$1,194,007</b>
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**Amounts reported for governmental activities in the Statement of Net Position are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,603,791
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Other long-term assets are not available to pay current period expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.	302,027
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(87,854)
--	----------

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Position.	40,353
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Long-term liabilities, including bonds and notes payable, compensated absences, termination benefits and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(6,078,924)</u>
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<b>Net position of governmental activities</b>	<b><u>\$4,973,400</u></b>
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HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2014

Exhibit E

		Capital Projects		
		Statewide	Nonmajor	
		Sales, Services	Governmental	
	General	and Use Tax	Funds	Total
Revenues				
Local sources				
Local tax	\$2,891,021	\$ -	\$ 831,746	\$ 3,722,767
Tuition	766,587	-	-	766,587
Other	43,280	72,878	162,509	278,667
State sources	3,936,117	577,784	456	4,514,357
Federal sources	169,147	-	-	169,147
Total revenues	<u>7,806,152</u>	<u>650,662</u>	<u>994,711</u>	<u>9,451,525</u>
Expenditures				
Current				
Instruction				
Regular	2,954,185	-	681	2,954,866
Special	1,097,985	-	-	1,097,985
Other	876,664	-	140,263	1,016,927
	<u>4,928,834</u>	<u>-</u>	<u>140,944</u>	<u>5,069,778</u>
Support services				
Student	135,667	-	-	135,667
Instructional staff	216,154	-	-	216,154
Administration	879,037	79,131	181,537	1,139,705
Operation and maintenance of plant	605,856	16,702	178,314	800,872
Transportation	352,929	118,265	42,694	513,888
	<u>2,189,643</u>	<u>214,098</u>	<u>402,545</u>	<u>2,806,286</u>
Other expenditures				
Facilities acquisition	-	89,146	125,366	214,512
Long-term debt				
Principal	-	-	475,000	475,000
Interest and fiscal charges	-	-	184,852	184,852
AEA flowthrough	262,735	-	-	262,735
	<u>262,735</u>	<u>89,146</u>	<u>785,218</u>	<u>1,137,099</u>
Total expenditures	<u>7,381,212</u>	<u>303,244</u>	<u>1,328,707</u>	<u>9,013,163</u>
Excess (deficiency) of revenues over (under) expenditures	<u>424,940</u>	<u>347,418</u>	<u>(333,996)</u>	<u>438,362</u>
Other financing sources (uses)				
Sale of materials or property	7,050	-	-	7,050
Interfund operating transfers in	-	-	418,247	418,247
Interfund operating transfers (out)	-	(304,997)	(113,250)	(418,247)
Total other financing sources (uses)	<u>7,050</u>	<u>(304,997)</u>	<u>304,997</u>	<u>7,050</u>
Change in fund balances	431,990	42,421	(28,999)	445,412
Fund balance, beginning of year	(88,578)	710,812	126,361	748,595
Fund balance, end of year	<u>\$ 343,412</u>	<u>\$ 753,233</u>	<u>\$ 97,362</u>	<u>\$ 1,194,007</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2014

Exhibit F

**Change in fund balances - total governmental funds** \$445,412

**Amounts reported for governmental activities in the Statement of Activities  
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense for the current year are as follows:

Expenditures for capital assets	\$466,760	
Loss on disposal of capital assets	(3,592)	
Depreciation expense	<u>(529,130)</u>	(65,962)

Certain revenues not collected for several months after year-end are not considered available revenue and are recognized as deferred inflows of resources in the governmental funds. 30,363

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The change in net position of the Internal Service Fund is reported with governmental activities. (1,118)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 475,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Termination benefits	(29,601)	
Compensated absences	33,024	
Other postemployment benefits	<u>(266,345)</u>	(262,922)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 4,072

**Change in net position of governmental activities** \$624,845  
See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Exhibit G

Statement of Net Position

Proprietary Funds

June 30, 2014

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>	Governmental <u>Activities</u> Internal <u>Service</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 80,840	\$ 42,512
Inventories	4,925	-
Total current assets	<u>85,765</u>	<u>42,512</u>
Noncurrent assets		
Capital assets, net of accumulated depreciation	<u>16,475</u>	<u>-</u>
Total assets	<u>102,240</u>	<u>42,512</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	-	2,159
Salaries and benefits payable	20,270	-
Unearned revenue	5,453	-
Due to other fund	<u>8,992</u>	<u>-</u>
Total liabilities	<u>34,715</u>	<u>2,159</u>
<b>Net Position</b>		
Investment in capital assets	16,475	-
Unrestricted	<u>51,050</u>	<u>40,353</u>
Total net position	<u>\$ 67,525</u>	<u>\$ 40,353</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Funds  
For the Year Ended June 30, 2014

Exhibit H

	Business Type <u>Activities</u> <u>Nonmajor</u> <u>Enterprise</u>	Governmental <u>Activity</u> <u>Internal</u> <u>Service</u>
Operating revenue		
Local sources		
Charges for service	\$ 209,035	\$ 86,633
Operating expenses		
Support services		
Administration		
Salaries	9,019	-
Benefits	1,479	11,713
Purchased services	-	20,541
	10,498	32,254
Operation and maintenance of plant		
Purchased services	-	55,497
Total support services	10,498	87,751
Non-instructional programs		
Food service operations	308,140	-
Preschool operations	21,196	-
Total non-instructional programs	329,336	-
Total operating expenses	339,834	87,751
Operating (loss)	(130,799)	(1,118)
Non-operating revenue		
Interest income	5	-
State sources	2,958	-
Federal sources	146,901	-
Total non-operating revenue	149,864	-
Increase (decrease) in net position	19,065	(1,118)
Net position beginning of year	48,460	41,471
Net position end of year	\$ 67,525	\$ 40,353

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2014

Exhibit I

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>	Governmental <u>Activity</u> Internal <u>Service</u>
Cash flows from operating activities		
Cash received from sale of services	\$ 209,235	\$ 86,633
Cash payments to employees for services	(144,119)	-
Cash payments to suppliers for goods and services	(146,902)	(86,055)
Net cash provided by (used in) operating activities	<u>(81,786)</u>	<u>578</u>
Cash flows from non-capital financing activities		
State grants received	2,958	-
Federal grants received	109,309	-
Net cash provided by non-capital financing activities	<u>112,267</u>	<u>-</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	<u>(1,163)</u>	<u>-</u>
Cash flows from investing activities		
Interest on investments	<u>5</u>	<u>-</u>
Net increase in cash and cash equivalents	29,323	578
Cash and cash equivalents, beginning of year	51,517	41,934
Cash and cash equivalents, end of year	<u>\$ 80,840</u>	<u>\$ 42,512</u>

**Reconciliation of operating (loss) to net cash  
provided by (used in) operating activities**

Operating (loss)	\$ (130,799)	\$ (1,118)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	1,867	-
Commodities used	37,592	-
Decrease in inventory	80	-
Increase in deferred revenue	200	-
(Decrease) in due to other funds	8,992	-
Increase in accounts payable	-	1,696
Increase in accrued salaries and benefits	282	-
Net cash provided by (used in) operating activities	<u>\$ (81,786)</u>	<u>\$ 578</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2014 the District received \$37,592 of federal commodities.

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2014

**Note 1. Summary of Significant Accounting Policies**

The Highland Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The District also operates a preschool for preschool aged children in the communities served. The geographic area served includes the Cities of Ainsworth and Riverside, Iowa, and the predominant agricultural territory in Louisa, Johnson and Washington Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Highland Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Highland Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's assets, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects - Statewide Sales, Services and Use Tax Fund is used to account for the collection of the 1% statewide sales and service tax to be expended for school infrastructure purposes.

The District reports no major proprietary funds. However, the District reports two nonmajor enterprise funds. The School Nutrition Fund, which is used to account for the food service operations of the District and the Preschool Fund, which is used to account for the preschool operations of the District. The District also has an internal service fund which is utilized to account for employee health insurance benefits.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the



timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, termination benefits and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2014.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property and furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,500
Buildings	\$ 1,500
Improvements other than buildings	\$ 1,500
Intangibles	\$25,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 1,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20 years
Intangibles	5-10 years
Buses	7 years
Other on-road vehicles	4 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances with either be reimbursed to the student or be used as meals are served to the student.

Compensated Absences - Certain District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2014. The compensated absences liability attributable to the governmental activities would be paid primarily by the General Fund.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements

only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2014. The early retirement liability attributable to the governmental activities would be paid primarily by the General and Management Funds. This liability has been computed based on amounts established in the District's adopted board policy regarding early retirement benefits.

Deferred Inflows of Resources - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax and income surtax receivables not collected within sixty days after year end as well as amounts paid for meals not yet served.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and amounts paid by students for meals not yet served.

Fund Equity - In the governmental fund financial statements, fund equity is classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Net Position - In the district-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Net position restricted through enabling legislation includes \$14,075 for physical plant and equipment, \$80,155 for student activities and \$753,233 for school infrastructure.

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

#### F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and

assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## **Note 2. Cash, Cash Equivalents and Pooled Investments**

The District's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$1,100,631 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

## **Note 3. Due To and From Other Funds**

The details of interfund receivables and payables at June 30, 2014 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
	Capital Projects	
General	Statewide Sales, Services and Use Tax	\$ 38,000
	Non-major Governmental	
General	Management Levy	47,211
	Non-major Enterprise	
General	Preschool	<u>8,992</u>
		<u>\$ 94,203</u>

The Management Fund had a negative cash balance on June 30, 2014. Since the Management Fund shares a bank account with General Fund, this negative cash balance is reported as an interfund receivable/payable on the balance sheet. The Statewide Sales, Services and Use Tax Fund owes General Fund for expenses and Preschool Fund owes General Fund for shared expenses. These balances will be repaid during the year ending June 30, 2015.

#### Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
	Nonmajor Capital Projects	
Debt service	Physical Plant and Equipment Levy	\$ 113,250
	Major Capital Projects	
Debt service	Statewide Sales, Services and Use Tax	<u>304,997</u>
Total		<u>\$ 418,247</u>

These transfers move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfers from the Physical Plant and Equipment Levy Fund and the Statewide Sales, Services and Use Tax Fund to the Debt Service Fund are to make principal and interest payments on long-term debt.

#### Note 5. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by an annual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the fiscal year. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The Series 2013-2014 ONE included taxable warrants only. The interest rates on the Series 2013-2014 ONE warrants are variable rates, calculated daily, based on the one-month LIBOR rate plus 105 basis points. The LIBOR rate at June 30, 2014 was 0.1524%. A summary of the District's ISCAP activity for the year ended June 30, 2014 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Balance, Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance, End of Year</u>
2013-14 ONE	6/26/2013	12/1/2014	\$ -	\$ 800,000	\$ 800,000	\$ -

During the year ended June 30, 2014, the District paid \$1,813 of interest on the ISCAP warrants.

## Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 226,612	\$ -	\$ -	\$ 226,612
Capital assets being depreciated:				
Buildings and improvements	9,795,925	30,991	-	9,826,916
Improvements other than buildings	2,085,799	177,361	(12,767)	2,250,393
Furniture and equipment	2,294,630	258,408	(263,057)	2,289,981
Total capital assets being depreciated	<u>14,176,354</u>	<u>466,760</u>	<u>(275,824)</u>	<u>14,367,290</u>
Less accumulated depreciation for:				
Buildings and improvements	2,527,354	194,898	(3,000)	2,719,252
Improvements other than buildings	427,545	111,362	(6,175)	532,732
Furniture and equipment	<u>1,778,314</u>	<u>222,870</u>	<u>(263,057)</u>	<u>1,738,127</u>
Total accumulated depreciation	<u>4,733,213</u>	<u>529,130</u>	<u>(272,232)</u>	<u>4,990,111</u>
Total capital assets being depreciated, net	<u>9,443,141</u>	<u>(62,370)</u>	<u>(3,592)</u>	<u>9,377,179</u>
Governmental activities capital assets, net	<u>\$ 9,669,753</u>	<u>\$ (62,370)</u>	<u>\$ (3,592)</u>	<u>\$ 9,603,791</u>
<b>Business-type activities</b>				
Furniture and equipment	\$ 104,128	\$ 1,163	\$ (5,993)	\$ 111,284
Less accumulated depreciation	<u>86,949</u>	<u>1,867</u>	<u>(5,993)</u>	<u>94,809</u>
Business type activities capital assets, net	<u>\$ 17,179</u>	<u>\$ (704)</u>	<u>\$ -</u>	<u>\$ 16,475</u>

Depreciation expense was charged to the following functions:

### Governmental activities

Instruction	
Regular	\$ 10,072
Special	4,670
Other	6,446
Support services	
Instructional staff	62,974
Administration	35,280
Operation and maintenance of plant	6,986
Transportation	<u>79,703</u>
	206,131
Unallocated depreciation	<u>322,999</u>
Total governmental activities depreciation expense	<u>\$ 529,130</u>

### Business type activities

Food services	<u>\$ 1,867</u>
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## Note 7. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2014 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities					
General obligation bonds	\$ 1,155,000	\$ -	\$(230,000)	\$ 925,000	\$ 230,000
Revenue bonds	3,220,000	-	(145,000)	3,075,000	150,000
Capital loan notes	900,000	-	(100,000)	800,000	100,000
Compensated absences	47,127	11,632	(44,656)	14,103	-
Termination benefits	61,854	63,989	(34,388)	91,455	26,029
Net OPEB liability	<u>907,021</u>	<u>305,897</u>	<u>(39,552)</u>	<u>1,173,366</u>	<u>-</u>
Totals	<u>\$ 6,291,002</u>	<u>\$ 381,518</u>	<u>\$(554,044)</u>	<u>\$ 6,078,924</u>	<u>\$ 506,029</u>

Interest costs incurred and charged to expense on all long-term debt was \$180,780 for the year ended June 30, 2014. During the year ended June 30, 2014, the District made principal payments on total long-term debt of \$475,000.

### Revenue Bonds

Details of the District's June 30, 2014 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year	Bond issue of June 1, 2009			
Ending June 30,	Interest Rates	Interest	Principal	Total
2015	4.25%	\$ 153,835	\$ 150,000	\$ 303,835
2016	4.25%	147,460	155,000	302,460
2017	4.25%	140,872	160,000	300,872
2018	4.25%	134,072	170,000	304,072
2019	4.50%	126,847	175,000	301,847
2020-2024	4.75-5.3%	501,052	1,000,000	1,501,052
2025-2029	5.3-5.45%	<u>212,680</u>	<u>1,265,000</u>	<u>1,477,680</u>
Totals		<u>\$ 1,416,818</u>	<u>\$ 3,075,000</u>	<u>\$ 4,491,818</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$3,560,000 of bonds issued in June 2009. The bonds were issued to finance remodeling projects at the JH/HS building and elementary. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 75% of the statewide sales and services tax revenues. The



total principal and interest remaining to be paid on the bonds is \$4,491,818. For the current year, \$145,000 of principal and \$159,997 of interest was paid on the bonds and statewide sales, services and use tax revenues were \$577,784.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$305,947 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales and services tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all the revenue bond provisions during the year ended June 30, 2014.

#### Refunded General Obligation Bonds

On April 25, 2012, the District issued \$1,340,000 of general obligation bonds to refund the general obligation bond issues of March 9, 1998 and November 1, 2005. On May 1, 2012 the remaining balances of \$100,000 of the 1998 issue and \$1,350,000 of the 2005 issue were called and paid from the proceeds of the refunding general obligation bonds. These amounts are considered to be extinguished and, therefore, excluded from the long-term debt of the District at June 30, 2014. This current refunding was undertaken to reduce total debt service payments over the next five years by \$107,260 and resulted in an economic gain of \$111,370.

Details of the District's June 30, 2014 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of April 25, 2012			
	Interest Rates	Interest	Principal	Total
2015	0.75%	\$ 9,725	\$ 230,000	\$ 239,725
2016	0.95%	8,000	230,000	238,000
2017	1.20%	5,815	230,000	235,815
2018	1.30%	3,055	235,000	238,055
Totals		<u>\$ 26,595</u>	<u>\$ 925,000</u>	<u>\$ 951,595</u>

#### Capital Loan Notes

On May 1, 2012, the District issued capital loan notes for a remodeling project. The notes bear interest at .5% to 2.3% and are payable from the Physical Plant and Equipment Levy Fund. Details of the District's capital loan notes at June 30, 2014 are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2015	0.80%	\$ 100,000	\$ 12,150	\$ 112,150
2016	1.00%	100,000	11,350	111,350
2017	1.15%	100,000	10,350	110,350
2018	1.30%	100,000	9,200	109,200
2019	1.60%	100,000	7,900	107,900
2020-2022	1.9-2.3%	<u>300,000</u>	<u>13,000</u>	<u>313,000</u>
Totals		<u>\$ 800,000</u>	<u>\$ 63,950</u>	<u>\$ 863,950</u>

### Compensated Absences

Certain District employees accumulate vacation hours for subsequent use or for payment upon termination, retirement, or death. The District's maximum liability for accumulated compensated absences was \$14,103 at June 30, 2014. No individuals had requested payment for unused vacation hours as of June 30, 2014.

### Termination Benefits

Certified District employees who have 10 years of continuous service at Highland Community School District and are age 55 or older are eligible for early retirement pay. The early retirement incentive for each eligible certified employee approved by the Board shall be the cost to the District for providing continuing coverage under the District's group insurance plan until the certified employee becomes eligible for Medicare. The coverage shall constitute the employee's single health and dental coverage applicable at the time of separation. The certified employee must meet the requirements of the insurer to continue coverage under this plan.

The Board has complete discretion to offer or not offer an early retirement plan for certified employees on an annual basis. The Board may discontinue the District's early retirement plan at any time.

The employee must notify the Board by March fifteenth to receive the early retirement benefits. At June 30, 2014, the maximum accumulated retirement benefits of the District was \$91,455 and four individuals had requested early retirement and were receiving the benefit. Early retirement expenditures for the year ended June 30, 2014 totaled \$34,388.

### **Note 8. Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 5.95%, 5.78% and 5.38% of their annual covered salary and the District was required to contribute 8.93% 8.67% and 8.07% of annual covered payroll for the years ended June 30, 2014, 2013 and 2012 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$388,058, \$366,887 and \$347,580, respectively, equal to the required contributions for each year.

#### **Note 9. Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 115 active, of which 23 were excluded from the valuation, and ten retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 355,123
Interest on net OPEB obligation	22,676
Adjustment to annual required contribution	<u>(71,902)</u>
Annual OPEB cost	305,897
Contributions made	<u>(39,552)</u>
Increase in net OPEB obligation	266,345
Net OPEB obligation beginning of year	<u>907,023</u>
Net OPEB obligation end of year	<u><u>\$ 1,173,368</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the District contributed \$39,552 to the medical plan. Plan members eligible for benefits contributed nothing of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2014 are summarized as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 254,377	20.5%	\$ 204,677
2011	\$ 258,406	19.5%	\$ 409,993
2012	\$ 283,104	21.5%	\$ 632,321
2013	\$ 311,867	17.1%	\$ 907,021
2014	\$ 305,897	12.9%	\$ 1,173,368

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2014, the actuarial accrued liability was \$1,880,886, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,880,886. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4.4 million and the ratio of UAAL to covered payroll was 43.2%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

#### **Note 10. Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **Note 11. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$262,735 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

#### **Note 12. Contingencies**

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2014, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

### **Note 13. Deficit Balances**

The District's governmental activities had a \$828,002 negative unrestricted net position and the Management Levy Fund and the Enterprise Fund-Preschool Fund had unreserved, undesignated fund deficits of \$44,103 and \$7,450, respectively at June 30, 2014.

### **Note 14. Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2014 is comprised of the following:

Program

Four-year-old preschool state aid	\$ 30,406
Teacher salary supplement	30,613
Early literacy grant	9,446
Educator quality, professional development for model core curriculum	42,482
Educator quality, professional development	<u>37,201</u>
	<u>\$ 150,148</u>

### **Note 15. Self-funded Health Insurance**

During the year ended June 30, 2013, the District began utilizing a partial self-funded/partial fully funded plan. This is a combination of a low self-funded single of \$1500/\$4500 and family \$3000/\$9000 and a high fully funded plan through Wellmark of single \$2,500/\$5,000 and family \$5,000/\$10,000. Payments to Wellmark are made for its premium and deposits into the Internal Service Fund are made monthly for the self-funded portion. The self-fund plan (Internal Service Fund) deposits and the independent administrator funds/pays for the claim exposure between the two or \$1,000 for single and \$2,000 for family. After the total exposure has been maximized, the fully-funded carrier pays 100%. The District estimates that 25% of those covered will reach full maximum exposure.

At June 30, 2014, the District had accumulated an excess of \$40,353 in its Internal Service Fund to cover employee health care claims. Also, the District continues to fund this plan by depositing premiums into the account on a monthly basis. The District's deposits into this fund have exceeded claims paid from the fund during the years ended June 30, 2014 and 2013. All submitted claims had been paid or accrued at June 30, 2014. The District does not expect claims to exceed monies available in the fund during the year ending June 30, 2014. The District is contingently liable for any claims in excess of funds available at June 30, 2014.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Claims liabilities are reported in the financial statements in other current liabilities. Changes in the balances of claims liabilities during the past two fiscal

years are as follows:

	Year Ended June 30,	
	2014	2013
Unpaid claims, beginning of year	\$ 463	\$ -
Current year claims and changes in estimates	87,751	20,183
Claim payments	<u>(86,055)</u>	<u>(19,720)</u>
Unpaid claims, end of year	<u>\$ 2,159</u>	<u>\$ 463</u>

#### **Note 16. Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

## Required Supplementary Information



# HIGHLAND COMMUNITY SCHOOL DISTRICT

## Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual

### All Governmental Funds and Proprietary Funds

#### Required Supplementary Information

For the Year Ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
<b>Revenues</b>						
Local sources	\$ 4,768,021	\$ 209,040	\$ 4,977,061	\$ 5,041,447	\$ 5,041,447	\$ (64,386)
State sources	4,514,357	2,958	4,517,315	4,278,602	4,278,602	238,713
Federal sources	169,147	146,901	316,048	246,278	246,278	69,770
Total revenues	<u>9,451,525</u>	<u>358,899</u>	<u>9,810,424</u>	<u>9,566,327</u>	<u>9,566,327</u>	<u>244,097</u>
<b>Expenditures/Expenses</b>						
<b>Current</b>						
Instruction	5,069,778	-	5,069,778	4,864,724	5,120,000	50,222
Support services	2,806,286	10,498	2,816,784	2,749,884	2,749,884	(66,900)
Non-instructional programs	-	329,336	329,336	297,000	297,000	(32,336)
Other expenditures	1,137,099	-	1,137,099	1,193,467	1,250,000	112,901
Total expenditures/expenses	<u>9,013,163</u>	<u>339,834</u>	<u>9,352,997</u>	<u>9,105,075</u>	<u>9,416,884</u>	<u>63,887</u>
<b>Excess of revenues over expenditures/expenses</b>	438,362	19,065	457,427	461,252	149,443	307,984
Net other financing sources	<u>7,050</u>	<u>-</u>	<u>7,050</u>	<u>2,000</u>	<u>2,000</u>	<u>5,050</u>
<b>Net change in fund balance</b>	445,412	19,065	464,477	463,252	151,443	313,034
Balance, beginning of year	<u>748,595</u>	<u>48,460</u>	<u>797,055</u>	<u>639,657</u>	<u>639,657</u>	<u>157,398</u>
Balance, end of year	<u>\$ 1,194,007</u>	<u>\$ 67,525</u>	<u>\$ 1,261,532</u>	<u>\$ 1,102,909</u>	<u>\$ 791,100</u>	<u>\$ 470,432</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2014

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures / expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeting expenditures by \$311,809.

During the year ended June 30, 2014, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Funding Progress for the  
Retiree Health Plan  
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$1,583,071	\$1,583,071	\$ -	\$4,349,462	36.4%
2011	July 1, 2009	-	1,583,071	1,583,071	-	4,221,168	37.5%
2012	July 1, 2009	-	1,583,071	1,583,071	-	4,152,961	38.1%
2013	July 1, 2012	-	1,921,597	1,921,597	-	4,273,444	45.0%
2014	July 1, 2012	-	1,880,886	1,880,886	-	4,354,575	43.2%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

## Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2014

Schedule 1

	<u>Special Revenue</u>		<u>Capital Projects</u>		
	<u>Student</u>	<u>Management</u>	<u>Physical Plant and Equipment</u>	<u>Debt</u>	<u>Total</u>
	<u>Activity</u>	<u>Levy</u>	<u>Levy</u>	<u>Service</u>	
<b>Assets</b>					
Cash, cash equivalents and pooled investments	\$84,923	\$ -	\$ 10,644	\$ 44,979	\$ 140,546
Receivables					
Property tax					
Delinquent	-	3,108	3,221	2,256	8,585
Succeeding year	-	300,000	348,721	241,225	889,946
Accounts receivable	-	-	210	-	210
Total assets	<u>\$84,923</u>	<u>\$ 303,108</u>	<u>\$362,796</u>	<u>\$ 288,460</u>	<u>\$ 1,039,287</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
Liabilities					
Accounts payable	\$ 4,768	\$ -	\$ -	\$ -	\$ 4,768
Due to other funds	-	47,211	-	-	47,211
Total liabilities	<u>4,768</u>	<u>47,211</u>	<u>-</u>	<u>-</u>	<u>51,979</u>
Deferred inflows of resources					
Unavailable revenue					
Succeeding year property tax	-	300,000	348,721	241,225	889,946
Fund balances					
Restricted for					
Student activities	80,155	-	-	-	80,155
Physical plant and equipment	-	-	14,075	-	14,075
Debt service	-	-	-	47,235	47,235
Unassigned	-	(44,103)	-	-	(44,103)
Total fund balances	<u>80,155</u>	<u>(44,103)</u>	<u>14,075</u>	<u>47,235</u>	<u>97,362</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$84,923</u>	<u>\$ 303,108</u>	<u>\$362,796</u>	<u>\$ 288,460</u>	<u>\$ 1,039,287</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2014

Schedule 2

	<u>Special Revenue</u>		<u>Capital Projects</u>		
	<u>Student Activity</u>	<u>Management Levy</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	<u>Total</u>
Revenues					
Local sources					
Local taxes	\$ -	\$ 250,633	\$341,740	\$239,373	\$ 831,746
Other	153,191	4,773	4,539	6	162,509
State sources	-	106	213	137	456
Total revenues	<u>153,191</u>	<u>255,512</u>	<u>346,492</u>	<u>239,516</u>	<u>994,711</u>
Expenditures					
Current					
Instruction					
Regular	-	681	-	-	681
Other	<u>140,263</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,263</u>
Total instruction	<u>140,263</u>	<u>681</u>	<u>-</u>	<u>-</u>	<u>140,944</u>
Support services					
Administration	-	75,781	105,756	-	181,537
Operation and maintenance of plant	-	173,822	4,492	-	178,314
Transportation	<u>-</u>	<u>42,694</u>	<u>-</u>	<u>-</u>	<u>42,694</u>
Total support services	<u>-</u>	<u>292,297</u>	<u>110,248</u>	<u>-</u>	<u>402,545</u>
Other expenditures					
Facilities acquisition	-	-	125,366	-	125,366
Long-term debt					
Principal	-	-	-	475,000	475,000
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>184,852</u>	<u>184,852</u>
Total other expenditures	<u>-</u>	<u>-</u>	<u>125,366</u>	<u>659,852</u>	<u>785,218</u>
Total expenditures	<u>140,263</u>	<u>292,978</u>	<u>235,614</u>	<u>659,852</u>	<u>1,328,707</u>
Excess (deficiency) of revenues over (under) expenditures	12,928	(37,466)	110,878	(420,336)	(333,996)
Other financing sources (uses)					
Interfund operating transfers in	-	-	-	418,247	418,247
Interfund operating transfers (out)	<u>-</u>	<u>-</u>	<u>(113,250)</u>	<u>-</u>	<u>(113,250)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(113,250)</u>	<u>418,247</u>	<u>304,997</u>
Net change in fund balances	12,928	(37,466)	(2,372)	(2,089)	(28,999)
Fund balances, beginning of year	<u>67,227</u>	<u>(6,637)</u>	<u>16,447</u>	<u>49,324</u>	<u>126,361</u>
Fund balances, end of year	<u>\$80,155</u>	<u>\$ (44,103)</u>	<u>\$ 14,075</u>	<u>\$ 47,235</u>	<u>\$ 97,362</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Statement of Net Position  
Nonmajor Enterprise Funds  
June 30, 2014

Schedule 3

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 76,546	\$ 4,294	\$ 80,840
Inventories	4,925	-	4,925
Total current assets	<u>81,471</u>	<u>4,294</u>	<u>85,765</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	16,475	-	16,475
Total assets	<u>97,946</u>	<u>4,294</u>	<u>102,240</u>
<b>Liabilities</b>			
Current liabilities			
Salaries and benefits payable	17,518	2,752	20,270
Unearned revenue	5,453	-	5,453
Due to other fund	-	8,992	8,992
Total liabilities	<u>22,971</u>	<u>11,744</u>	<u>34,715</u>
<b>Net Position</b>			
Investment in capital assets	16,475	-	16,475
Unrestricted	58,500	(7,450)	51,050
Total net position	<u>\$ 74,975</u>	<u>\$ (7,450)</u>	<u>\$ 67,525</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Statement of Revenues, Expenses and Changes in Fund Net Position  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2014

Schedule 4

	<u>School</u> <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$ 192,771	\$ 16,264	\$ 209,035
Operating expenses			
Support services			
Administration			
Salaries	9,019	-	9,019
Benefits	1,479	-	1,479
Total support services	<u>10,498</u>	<u>-</u>	<u>10,498</u>
Non-instructional programs			
Salaries	101,501	14,180	115,681
Benefits	20,198	7,016	27,214
Purchased services	826	-	826
Supplies	183,748	-	183,748
Depreciation	1,867	-	1,867
	<u>308,140</u>	<u>21,196</u>	<u>329,336</u>
Total operating expenses	<u>318,638</u>	<u>21,196</u>	<u>339,834</u>
Operating (loss)	<u>(125,867)</u>	<u>(4,932)</u>	<u>(130,799)</u>
Non-operating revenue			
Interest income	-	5	5
State sources	2,958	-	2,958
Federal sources	146,901	-	146,901
Total non-operating revenue	<u>149,859</u>	<u>5</u>	<u>149,864</u>
Change in net position	23,992	(4,927)	19,065
Net position beginning of year	50,983	(2,523)	48,460
Net position end of year	<u>\$ 74,975</u>	<u>\$ (7,450)</u>	<u>\$ 67,525</u>

See accompanying Independent Auditor's Report.



HIGHLAND COMMUNITY SCHOOL DISTRICT  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Year Ended June 30, 2014

Schedule 5

	School <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 192,971	\$ 16,264	\$ 209,235
Cash payments to employees for services	(131,115)	(13,004)	(144,119)
Cash payments to suppliers for goods and services	(146,902)	-	(146,902)
Net cash provided by (used in) operating activities	<u>(85,046)</u>	<u>3,260</u>	<u>(81,786)</u>
Cash flows from non-capital financing activities			
State grants received	2,958	-	2,958
Federal grants received	109,309	-	109,309
Net cash provided by non-capital financing activities	<u>112,267</u>	<u>-</u>	<u>112,267</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets	(1,163)	-	(1,163)
Cash flows from investing activities			
Interest on investments	-	5	5
Net increase in cash and cash equivalents	26,058	3,265	29,323
Cash and cash equivalents, beginning of year	50,488	1,029	51,517
Cash and cash equivalents, end of year	<u>\$ 76,546</u>	<u>\$ 4,294</u>	<u>\$ 80,840</u>

**Reconciliation of operating (loss) to net cash  
provided by (used in) operating activities**

Operating (loss )	\$ (125,867)	\$ (4,932)	\$(130,799)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	1,867	-	1,867
Commodities used	37,592	-	37,592
Decrease in inventory	80	-	80
Increase in deferred revenue	200	-	200
(Decrease) in due to other funds	-	8,992	8,992
Increase (decrease) in accrued salaries and benefits	1,082	(800)	282
Net cash provided by (used in) operating activities	<u>\$ (85,046)</u>	<u>\$ 3,260</u>	<u>\$ (81,786)</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2014 the District received \$37,592 of federal commodities.

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
For the Year Ended June 30, 2014

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
Vocal	\$ 65	\$ 2,994	\$ 3,008	\$ 51
Instrumental	42	1,965	1,956	51
Pop & concessions	979	4,314	4,673	620
Student fundraising	3,231	-	-	3,231
Sixth grade class	115	-	-	115
Seventh grade class	150	-	-	150
Eighth grade class	225	100	-	325
Freshman class	235	2,266	1,747	754
Sophomore class	450	4,924	4,577	797
Junior class	681	50	490	241
Senior class	766	-	393	373
Principal's Account	424	750	250	924
Annual	1,536	2,497	4,168	(135)
Cheerleaders	2,601	5,287	7,026	862
Drill team	746	4,450	5,181	15
National Honor Society	388	467	640	215
Sr high student council	949	800	93	1,656
Jr high student council	1,121	655	680	1,096
Drama club	145	511	481	175
Art club	698	-	-	698
Spanish club	237	-	-	237
Athletics	20,814	101,818	88,724	33,908
Riverside fund	13,375	3,008	3,616	12,767
Ainsworth fund	5,775	1,752	1,211	6,316
Middle school fund	7,038	4,396	5,441	5,993
Shooting sports club	2,683	8,478	4,982	6,179
Robotics club	6	709	757	(42)
High school fund	1,752	1,000	169	2,583
Totals	<u>\$ 67,227</u>	<u>\$ 153,191</u>	<u>\$ 140,263</u>	<u>\$ 80,155</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Ten Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	Modified Accrual Basis									
<b>Revenues</b>										
Local sources										
Local tax	\$ 3,722,767	\$ 4,053,091	\$ 3,818,164	\$ 3,413,337	\$ 3,208,770	\$ 3,074,108	\$ 2,958,685	\$ 2,693,149	\$ 2,521,084	\$ 2,284,988
Tuition	766,587	703,892	618,727	590,209	603,302	534,280	466,772	395,840	340,475	274,251
Other	278,667	424,693	286,030	323,266	527,055	355,805	399,915	409,119	314,129	273,500
Intermediate sources	-	-	-	-	-	-	-	-	12,600	-
State sources	4,514,357	3,723,746	3,731,928	3,819,004	3,124,390	3,655,379	3,494,399	3,053,772	2,965,288	2,643,349
Federal sources	169,147	174,256	292,192	203,422	536,662	179,295	144,692	133,911	147,397	125,535
<b>Total revenues</b>	<b>\$ 9,451,525</b>	<b>\$ 9,079,678</b>	<b>\$ 8,747,041</b>	<b>\$ 8,349,238</b>	<b>\$ 8,000,179</b>	<b>\$ 7,798,867</b>	<b>\$ 7,464,463</b>	<b>\$ 6,685,791</b>	<b>\$ 6,300,973</b>	<b>\$ 5,601,623</b>
<b>Expenditures</b>										
Current										
Instruction										
Regular	\$ 2,954,866	\$ 2,812,839	\$ 2,885,460	\$ 2,665,176	\$ 2,671,903	\$ 2,862,465	\$ 2,529,325	\$ 2,327,498	\$ 2,340,221	\$ 2,041,513
Special	1,097,985	1,075,598	1,199,945	1,153,555	1,084,270	969,265	851,882	775,085	717,324	646,978
Other	1,016,927	1,045,724	897,345	969,102	927,222	719,521	781,751	707,213	440,947	527,389
Support services										
Student	135,667	140,433	138,038	132,164	120,763	78,088	73,865	76,196	91,367	84,720
Instructional staff	216,154	237,069	258,356	320,413	386,363	290,327	393,429	422,532	269,235	238,941
Administration	1,139,705	1,176,105	1,023,264	916,191	894,878	942,053	760,712	722,347	659,599	582,102
Operation and maintenance of plant	800,872	669,945	647,451	634,636	604,105	648,824	597,414	523,452	495,074	438,447
Transportation	513,888	402,859	395,545	417,337	330,270	383,141	250,736	280,656	361,661	175,373
Non-instructional programs	-	-	-	-	1	-	-	-	-	4,766
Other expenditures										
Facilities acquisition	214,512	337,290	1,370,333	588,256	3,275,850	804,363	117,250	229,728	75,898	83,515
Long-term debt										
Principal	475,000	420,000	1,713,980	415,000	400,000	290,000	280,000	260,000	265,395	266,405
Interest and other charges	184,852	192,403	247,485	258,089	200,568	108,497	120,692	131,900	198,608	163,902
AEA flowthrough	262,735	253,035	253,795	278,007	259,507	234,627	222,787	205,846	194,410	175,545
<b>Total expenditures</b>	<b>\$ 9,013,163</b>	<b>\$ 8,763,300</b>	<b>\$ 11,030,997</b>	<b>\$ 8,747,926</b>	<b>\$ 11,155,700</b>	<b>\$ 8,331,171</b>	<b>\$ 6,979,843</b>	<b>\$ 6,662,453</b>	<b>\$ 6,109,739</b>	<b>\$ 5,429,596</b>

See accompanying Independent Auditor's Report.

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of  
Highland Community School District:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Highland Community School District as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated March 12, 2015.

## Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Highland Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Highland Community School District's internal control. Accordingly, I do not express an opinion on the effectiveness of Highland Community School District's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be significant deficiencies and material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as item A to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in Part I of the accompanying Schedule of Findings as item B to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### Highland Community School District's Responses to Findings

Highland Community School District's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. Highland Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Highland Community School District during the course of my audit. Should you have any questions concerning any of the about matters, I shall be pleased to discuss them with you at your convenience.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
March 12, 2015

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2014

**Part I. Findings Related to the Financial Statements**

**INTERNAL CONTROL DEFICIENCIES**

- A. Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements and bank account reconciliations within each fund were handled by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - As of November 2013, we have an individual that takes all the bank deposits to the bank. This individual does not have any other accounting functions. We believe this change in procedure enhances our controls and helps with segregation of duties. We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- B. Use of District's Federal Identification Number - It was noted during the audit that the post prom group is using the District's federal identification number on its bank account.

Recommendation - Organizations that are not part of the school district should not use the District's federal identification number. The District should contact the organization and insist that it discontinue using the District's federal identification number. If the organization continues to use the District's federal identification number, the organization's funds and records should be incorporated into the District's accounting system as agency funds.

Response - We will talk to the organization about getting its own federal identification number and insist that it discontinue using the District's.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2014

**Part II. Other Findings Related to Required Statutory Reporting:**

1. Certified Budget - Expenditures for the year ended June 30, 2014 exceeded the amounts budgeted in the support services and non-instructional programs functions, as well as in total.

Recommendation - The certified budget was amended; however, not to sufficient amounts to cover expenditures. The certified budget should have been amended to sufficient amounts in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended sufficiently to ensure that the certified budget amounts are not exceeded.

Conclusion - Response accepted.

2. Questionable Expenditures - I did not note any expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.



HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2014

10. Certified Annual Reports - The Certified Annual Report was certified timely to the Department of Education.
11. Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2014, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 710,812
Revenues		
Statewide sales and services tax revenue	\$ 426,493	
Contributions	72,871	
Interest	<u>5</u>	499,369
Expenditures/transfers out		
School infrastructure		
School infrastructure construction	\$ 89,146	
Buildings	-	
Equipment	176,097	
Other improvements	<u>-</u>	
Debt service for school infrastructure		
General obligation debt	-	
Revenue debt	<u>304,997</u>	<u>570,240</u>
Ending balance		<u>\$ 639,941</u>

For the year ended June 30, 2014, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

13. Financial Condition - The District's governmental activities had a \$828,002 negative unrestricted net position and the Management Levy Fund and the Enterprise Fund-Preschool Fund had unreserved, undesignated deficits of \$44,103 and \$7,450, respectively at June 30, 2014.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2014

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate these deficits.

Response - We will review the situation and implement changes, as needed.

Conclusion - Response accepted.

14. Student Activity Fund - In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), moneys in the Student Activity Fund should be used to support only the extracurricular and co-curricular activities offered as part of the District's educational programs. During the year ended June 30, 2014, the District expended monies from the Student Activity Fund to purchase and install a security system, jackets for bus drivers and parent guidebooks. These expenditures do not appear to be extracurricular or co-curricular in nature and would have been more appropriately made from another fund.

Recommendation - The District should review and reclassify these accounts to the appropriate fund(s). The District should also ensure that all moneys expended from the Student Activity Fund comply with the Code of Iowa and Iowa Administrative Rules.

Response - We will review the expenditures in the Student Activity Fund and reclassify to the appropriate fund, as needed.

Conclusion - Response accepted.

15. Images of Checks - The District receives their cancelled checks from the bank as photo images, showing only the front of the checks. Chapter 554D.114 of the Code of Iowa requires both the front and back of check images be retained.

Recommendation - The District should contact the bank to rectify this situation so that they receive photo images of both front and back of each check.

Response - We will contact the bank to resolve this matter.

Conclusion - Response accepted.

HIGHLAND COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2014

This audit was performed by

Kay Chapman, CPA  
Terri Slater, staff accountant